



SUFFOLK COUNTY

PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

Quarterly Newsletter

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New Contract Terms

The Suffolk County Public Employees Deferred Compensation Board has voted to continue its relationship with AIG VALIC and T. Rowe Price. The current five-year contracts with both Providers expire June 30, 2005, and work on the new contracts has already begun.

AIG VALIC and T. Rowe Price were chosen to continue as our Providers through the required Request for Proposal process. Our Participants are already familiar with both companies' low fees and fund offerings—but the Board has negotiated enhancements by the Providers that will go into effect on or after July 1, 2005:

- Eliminate the \$5 annual administrative fee formerly paid by the Participant.
- Offer online investment guidance products and advice at no cost or at a reduced fee—depending upon the level of advice.
- Provide portfolio management for an asset-based fee.
- Commit to expand the communication/educational component of the Plan and provide free employee meetings during the year.
- Agree to the possibility of offering a Mutual Fund Window (brokerage account) through the Plan.

More Q & A

We have gotten positive feedback that Participants like the Q & A format in the quarterly newsletter. Here are some common questions (and answers) about the Plan:

Q. Do deferred compensation deferrals affect my Social Security taxes or my pension contributions?

A. No, Social Security taxes and pension contributions, if any, are calculated on the basis of gross wages.

Q. I've seen the Plan referred to as a government 457(b) plan. What does that mean?

A. The name 457(b) comes from the IRS section describing the program. It is a defined contribution plan offered by a municipality that allows employees to set aside tax-deferred income for retirement purposes. Although there are limits on when account-holders can access any or all of their account balance, there is no penalty for former employees to access their funds before they turn age 59½.

Q. I will be 50 years old this coming New Year's Eve. Am I eligible for the Age 50 Plus contributions for this calendar year?

A. Yes, the fact that you will turn 50 during this calendar year means your annual maximum contribution limit for 2005 is \$18,000. Assuming your biweekly deferrals are sufficient to reach the annual limit, the payroll system has been programmed to stop at \$18,000 (because of your year of birth) rather than the \$14,000 eligibility limit for those under age 50.

Q. Can I make deposits by personal check to my deferred compensation account during the year?

A. No, tax-deferred contributions to our Plan have to be made from your biweekly paycheck.

Q. Are the assets in the Plan the property of the County? I seem to remember hearing that a while ago.

A. At one time the money in the Plan was an asset of the County—but no longer. Since January 1, 1999, all monies in our Plan are in a Trust, held for the exclusive benefit of Participants and their beneficiaries.

Short-Term Redemption Fees

A number of fund families are levying redemption fees on certain funds as a way to curtail excessive or short-term trading. There are funds in our Plan that now require a Participant to hold the fund for a certain length of time before being sold. To ensure that this information is available during the decision-making process, disclosure of a fund's redemption fee policy (if any) will be found in a number of places, including the fund's prospectus and the general fund descriptions online or over the phone. In addition, if a Participant is purchasing or selling a fund subject to a redemption fee, the information will be disclosed at key points of interaction whether on an automated line, online, or speaking with a representative.

Plan Loans

While the Board is not encouraging our Participants to take loans, this newsletter is a good way to answer the most frequently asked Plan loan questions.

- Q. Do I have to be a Participant for a specific length of time before I am eligible to take out a Plan loan?
- A. No, but your eligibility for a Plan loan is based on your account balance—and the minimum amount of a loan is \$1,000. This means you won't be eligible to take out a Plan loan until you have at least \$2,000 in your account.
- Q. Is there a credit check?
- A. No, there is no credit check because you are borrowing money from yourself.
- Q. Can I take out more than one loan?
- A. The Board's rules permit only one Plan loan at a time.
- Q. I'm a retiree. Can I take a Plan loan?
- A. Only employees receiving a biweekly paycheck are eligible to apply for a loan. Participants who are no longer employed are not eligible to take a loan against their account balance.
- Q. Can I take a loan out just before I retire?
- A. Yes, but if you have an outstanding loan balance when you retire or leave County employment, you will be notified of what you owe and you must satisfy the entire loan balance within 30 days after being supplied that payoff figure.
- Q. What's the interest rate and does it fluctuate during the life of the loan?
- A. The interest rate is one percentage above the prime rate. If the prime was 5½% when you took out a loan, your interest would be 6½% for the life of the loan.

Managed Funds

The T. Rowe Price Retirement Funds have been available through our Plan since August 2004, and have proven to be a very popular option—and not just for those nearing retirement. These managed funds make it easy for any age Participant to choose an appropriate strategy for retirement investing. These funds are allocated, managed, and rebalanced with specific retirement dates in mind. Although the Board permits the selection of these funds as part of your portfolio, because of their built-in diversification, they can also be selected as your single option. The newest fund in the series, Retirement 2045, is scheduled to launch on July 1, 2005.

Enhanced Rate for VALIC Fixed-Interest Option

Our Plan Participants are now being offered an enhanced interest rate of .25% on the VALIC Fixed-Interest Option. As of April 1, 2005, the rate for the VALIC Fixed-Interest Option increased from 3.50% to 3.75%. For a little background, this rate is declared monthly with interest credited on a daily basis at an annual effective rate. The VALIC Fixed-Interest Option offers an annual minimum crediting rate set at the beginning of each year, as well as a contract minimum rate guaranteed throughout the lifetime of the contract. The product credits interest under a "portfolio interest crediting method" in which all deposits receive the same return regardless of date of initial deposit. The 2005 Calendar Year Standard Minimum Guaranteed Rate is 3.00% as is the Contract Minimum Guaranteed Rate.

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Program Providers

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|----------------------|----------------|
| T. Rowe Price | 1-888-457-5770 |
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